DIA MET MINERALS LTD.
ANNUAL REPORT 1997-98

Partners in Canada's First Diamond Mine

Business Description

Dia Met Minerals Ltd. is a mineral exploration and development company engaged principally in the exploration for and development of diamond deposits. The Company was founded in 1983 by geologist and chairman, Charles E. Fipke, to finance systematic exploration for diamonds in Canada.

The Company's most significant asset is its investment in the Ekati Diamond Mine located in the Lac de Gras area of the Northwest Territories. Dia Met has a 29 per cent interest in the Core Zone joint venture with BHP Diamonds Inc., which has 51 per cent, and Mr. Fipke and geologist Stewart Blusson, who have 10 per cent each. The joint venture is building Canada's first commercial diamond mine. The mine, which will be operated by BHP Diamonds, is due to go into production in October 1998. Dia Met also has a 7.8 per cent interest in the Buffer Zone claims surrounding and adjacent to the Ekati Diamond Mine.

Dia Met continues to investigate new exploration opportunities identified by its management. In addition to ongoing exploration and development associated with the Ekati Diamond Mine, the Company is currently carrying out extensive global exploration, including heavy mineral sampling and airborne and ground geophysics in the Northwest Territories, Finland, Greenland, British Columbia, the United States and eastern Europe.

The Annual General Meeting of Shareholders will be heid at 10:00 a.m. on Friday, June 26, 1998, in the ballroom at the Coast Capri Hotel, 1171 Harvey Avenue, Kelowna, B.C., Canada, V1Y 6E8.

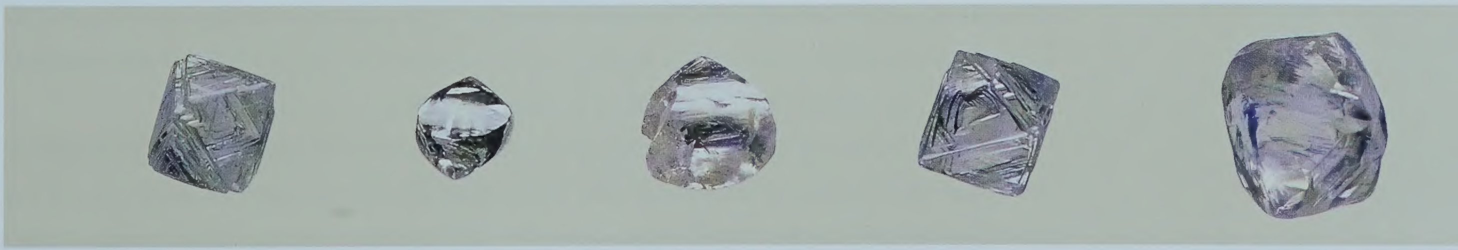
Contents

On the cover

Aerial view of the Ekati Diamond Mine campsite in April, 1998. Gemstones recovered from Koala pipe exploration drill holes. Total weight of stones is 2.6 carats.

Another Milestone Year

- The NWT Diamonds Project is renamed the Ekati Diamond Mine. The $700 million US project remains on time and within budget for commercial production in October 1998. Prestripping of the Panda pit, the first kimberlite pipe to be mined, is completed.
- Twenty three additional kimberlite pipes are discovered on the Northwest Territories project in the 1997 summer drilling program. This raises the total number of confirmed pipes on the property to 100.
- Bulk sampling of Beartooth and Koala North, two new kimberlite pipes both located in the immediate Ekati mine development area, is completed in March 1998.
- In January 1998, the Ekati Diamond Mine achieves a major safety milestone when the entire project reaches one million worked hours without a lost-time accident. This is a record for both the mining and construction industries in the Northwest Territories, and a notable achievement by North American standards.
- Dia Met Minerals Ltd. enters into an agreement in August 1997 on a joint-venture property with Monopros Limited, De Beers' Canadian subsidiary, for diamond exploration in west Greenland.
- A joint venture agreement is signed in February 1998 with Ashton Mining Limited of Australia. Dia Met acquires a ten-year database and rights to an interest in diamond bearing kimberlite pipes in Finland.
- A public offering of 1.8 million Dia Met Class A shares at $20.50 is completed in April 1997. The underwriters take up an over-allotment option to purchase an additional 180,000 Class A shares. Gross proceeds from the financing are $40,590,000.
- A marketing consulting agreement is signed between BHP and I.D.H. Diamonds NV of Antwerp, Belgium, in November 1997. I.D.H. Diamonds will assist in setting up an office in Antwerp which will be used to sell a portion of the production of the Ekati Diamond Mine.



Dia Met Minerals Ltd. is building its future through focused mineral exploration and development. Its principal goal is to be among the top performers in total shareholder return in the world diamond exploration and mining industry. The company has endeavoured to meet or exceed its projections. With the opening of the world-class Ekati Diamond Mine, Dia Met is poised to create substantial value for its shareholders. Bold and innovative thinking brought the company to where it is today. And it is with this spirit that Dia Met will take advantage of new opportunities through its own exploration efforts and in joint ventures with others. It will continue to conduct business fairly, safely and with respect for the environment.

Report to Shareholders & Employees

On behalf of the Board of Directors I am pleased to present the Annual Report, together with the financial statements for the fiscal year ending January 31, 1998.

The NWT Diamonds Project is proceeding, with construction and installation more than 85 per cent complete at what is now known as the Ekati Diamond Mine. The project is on budget and on time, with startup scheduled for October of this year.

Progress is being made in developing a market for Ekati production. BHP Diamonds Inc. has opened an office in Antwerp and has entered into a consulting agreement with I.D.H. Diamonds of Antwerp. The four-year agreement provides for I.D.H. to offer a range of services pertaining to the establishment of the office, the gathering of market information and the sale of a portion of the mine's production. Negotiations are continuing with De Beers, although the proportion of production which could be sold to De Beers is somewhat limited by legal considerations. The joint venture continues to develop a marketing program through multiple channels, and expects it to be in place prior to the mine opening.

We recently announced the establishment of a diamond valuation facility in a community in the Northwest Territories. The operation will be used for training, basic sorting and government valuation for royalty purposes. More detailed sorting could be carried out as the skills and expertise of the valuators are developed. This announcement paves the way for the sale of rough diamonds to qualified Northern manufacturers at prices, terms and conditions equivalent to our other marketing programs. The Government of the Northwest Territories has accepted the responsibility for providing the support and assistance to help establish qualified local diamond manufacturing facilities in order to fulfill its desire to create local employment.

Our relationship with BHP Diamonds continues to be excellent. Although it is the operator of the entire project, it makes a sincere effort to consult with its partners on all aspects of the development. We are very fortunate to be involved in what can be truly called a partnership.

Dia Met Minerals Ltd. recently sold 90 per cent of its interest in Northern Air Support Ltd. The company was originally formed to provide helicopter services to Dia Met and the NWT Diamonds Project. The company expanded into helicopter maintenance and outside chartering. Both areas of endeavour proved to be extremely competitive with little room for profitable operation. It was decided that Dia Met should concentrate on the development of its core assets and, therefore, the company was sold. The new owner is well-established in the industry and will continue to provide the services required for our exploration programs.

The Board of Directors is presently working on the creation of a strategic plan for Dia Met. The company, upon repayment of its share of the capital costs of Ekati in approximately three years, will be receiving 29 per cent of the cash flow from the mine. The future course for Dia Met must be established, and a program implemented, to strengthen the Board and management with the expertise required to create the ability to provide for continuing growth and enhancement of shareholder value.

Dia Met's continuing exploration programs in areas other than the NWT are progressing satisfactorily. They are covered in detail in later sections of this report. Of particular note are two new joint ventures, one with Monopros Limited — a subsidiary of De Beers — in Greenland and the other with Ashton Mining Limited in Finland. We have developed good working relationships with each of these companies, which could conceivably lead to additional exploration opportunities in the future.

In 1996, the Board of Directors adopted a Statement of Corporate Governance. The committees established and referred to in that Statement met regularly on a formal and informal basis during the past year. The Statement will be updated, and changes implemented, as required.

In June, 1997, Mr. Gerald Prosalendis joined Dia Met as the Manager of Investor Relations and Corporate Communications. Mr. Prosalendis was formerly Business Editor of *The Vancouver Sun*. His appointment enhances our ability to keep our shareholders and other interested parties fully informed as we move towards a period of substantial growth.

In March, 1998, we announced the appointment of Bob Hickman to the Dia Met Board. Prior to his retirement in 1996, Mr. Hickman was the first president of BHP Diamonds. He also had the worldwide responsibility within BHP Minerals for new business development. Mr. Hickman brings to the Board years of mineral exploration and development experience, and will provide the expertise we require to help formulate and implement our strategic plan.

We would like to extend our appreciation to the employees of Dia Met who have all worked so diligently to help the Company evolve into a major participant in diamond exploration.

The year 1998 will bring the opening of the Ekati Mine and the culmination of many years of exploration and development. The brilliance and tenacity of Chuck Fipke, followed by the dedicated endeavours of all those involved, will result in Canada's first diamond mine.

It is a very exciting year, and Dia Met is at the point of transition from a pure exploration company to a major participant in the mining and marketing of rough diamonds.

Thank you for your faith and support during the many years it has taken to bring the mine into production.

We look forward to the future.

On Behalf of the Board

James E Eccott

James E. Eccott
President
April 29, 1998

James E. Eccott
President and
Chief Executive Officer

Development & Exploration Review

Development

Canada's first commercial diamond mine is rapidly nearing completion in the sub-Arctic barren lands of the Northwest Territories, 300 km northeast of the city of Yellowknife.

The Ekati Diamond Mine, a joint venture between BHP Diamonds Inc., Dia Met Minerals Ltd. and geologists Charles E. Fipke and Stewart Blusson, is on track to go into production in October 1998. Rough stones from the mine should be available for sale by the end of the year.

The over-all objective is to build and operate a safe, environmentally sound, efficient and profitable mine.

Tenacity, persistence and the hard work of many individuals have made it happen. From the arduous prospecting of the early 1980s, to the historic discovery of the first kimberlite pipe at Point Lake in 1991, through the complex permitting process and mine site development, the Ekati Diamond Mine has directly involved thousands of people and has had a profound impact on Canadian mineral exploration.

Designing and building a mine in the harsh Arctic tundra has presented unique challenges. The mine will be in production only seven years after the discovery of the first diamondiferous pipe, and 21 months after final government approvals in January 1997.

Close attention has been paid to integrating the project with local communities and the economy of the Northwest Territories. Environmental baseline studies have provided a springboard for responsible environmental management.

An Environmental Impact Statement was prepared and reviewed by the federal government. The review included public hearings in nine communities over a span of 18 months. Aboriginal land claim issues were an important part of the deliberations. The operator signed Impact and Benefit Agreements with aboriginal groups, a socioeconomic agreement with the Government of the Northwest Territories and an environmental agreement with both the federal and territorial governments. The federal government gave its final approval in November 1996. All licences and permits needed to proceed with full scale development were obtained in January 1997, allowing construction to begin.

NEW NAME

In October 1997, the NWT Diamonds Project was renamed the Ekati Diamond Mine. Ekati, which translates as "fat lake," is the traditional name for the Lac de Gras area where the mine is situated. The name refers to the white quartz rock which is found in abundance around Lac de Gras. Both Dogrib and Dene elders talk about the veins that run through the white rock that make it look like caribou fat. Caribou fat is seen as a symbol of great value by local aboriginal people in northern Canada.

CRITICAL CHRONOLOGY

1983: Geologist Charles Fipke incorporates Dia Met Minerals Ltd. to fund exploration for diamonds in Canada.

1989: After eight years of exploration, Dia Met stakes the first mineral claims for diamonds in the Lac de Gras area of the Northwest Territories.

September 1990: Dia Met and BHP sign a joint venture agreement for the NWT Diamonds Project.

August 1991: Discovery hole drilled into Point Lake pipe and first diamonds recovered, sparking the largest staking rush in North American history.

December 1994: BHP submits project description report to the Canadian government for the proposed development of five kimberlite pipes.

July 1995: BHP submits environmental impact study to a review panel appointed by Canadian Minister of Environment. The report weighs 64 pounds and costs $14 million to complete.

April 1997

Commencement of initial construction of truck shop, power plant and process plant. The largest of the cranes in the background has a capacity of 225 tonnes. All major construction equipment and materials were delivered on the 1997 winter ice road.

June 1996: Environmental review panel recommends approval of mine development.

October 1996: Socio-economic agreement between BHP and the Government of the Northwest Territories is signed.

October, November 1996: Impact benefit agreements signed with Treaty 11 Dogrib, Akaitcho Treaty 8 and Lutsel K'e.

November 1996: Final approval for mine received from Federal Cabinet.

January 1997: All licences and permits for proposed mine obtained. Key elements are: an environmental agreement between the federal government, GNWT and BHP; the issuance of an eight- year class A water licence for the Panda, Misery and Koala pipes; the issuance of six 30-year land leases; and the signing of the Fisheries Authorization by the Department of Fisheries and Oceans.

HARSH CLIMATE

The Ekati Diamond Mine lies 200 km south of the Arctic Circle near Lac de Gras. Summers are short and cool, winters long and extremely cold. Arctic conditions prevail from October to April each year, when temperatures can drop to -50 degrees C. Permafrost extends to 250 metres below the ground.

The mine design takes advantage of the properties of frozen kimberlite during the winter and reduces the difficulty of handling thawed, sticky kimberlite during the summer. Equipment is exposed to sub-zero temperatures as little as possible.

Other harsh-climate measures include:

- The process plant, fuel tanks and major structures are built on bedrock. The process plant is temperature controlled.
- Concrete slabs are insulated to prevent permafrost under buildings from thawing.
- Design and fabrication are modular to overcome the restrictions of the ice road.
- Enclosed corridors connect the camp to working areas so that workers avoid the harsh environment.
- Waste heat from diesel generators is used to heat buildings and water.
- All conveyor galleries are enclosed. Low temperature bearings and grease are used on belt conveyors. Immersion heaters have been installed for speed reducers and critical gearboxes. Belt scrapers can remove frozen material.
- Electrical equipment is enclosed in heated areas.
- A warming shed is provided for mobile equipment.
- The primary crusher operates without a water supply.
- The coarse ore apron feeders are powered by a hydraulic drive that can start under full load at -50 degrees C.

Ice Road

Surface transportation to the Ekati Diamond Mine is only possible across a winter ice road during restricted times of the year. The project uses the Echo Bay road from Tibbit Lake north of Yellowknife to the site. This road runs for 28 per cent of its distance over land, and 72 per cent over frozen lakes. The total distance from Yellowknife is 469 km.

After 20 years, construction of this ice road is now a well defined task. It takes two to three weeks, depending on the weather. Generally, the road is open between mid-January and mid-April each year and operates 24 hours a day. In 1997, 2,022 trucks transported 42,000 tonnes of materials and equipment without an incident.

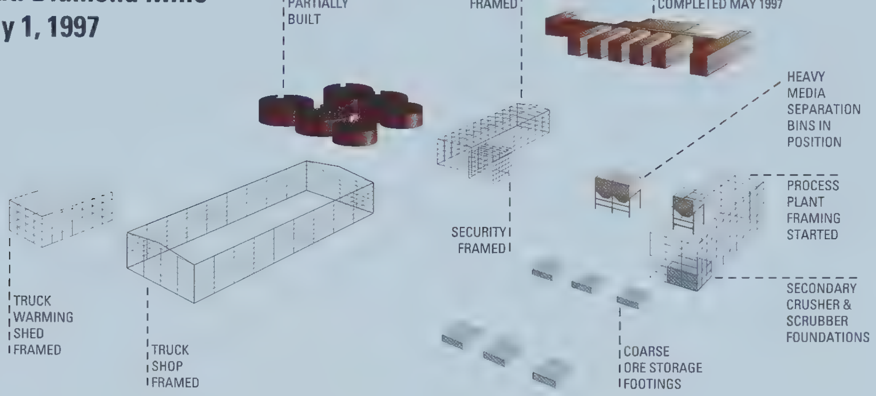
In 1998, the road opened on January 19 and closed on April 4, an operational window of 76 days. The total number of loads shipped to Ekati was 2,179 with a total weight of 73,000 tonnes.

April 1997

Ammonium nitrate awaiting transport to site aboard a Hercules C130 transport plane. The Hercules had made more than 680 flights from Yellowknife to site by the end of 1997.

June 1997
Construction workers trim foundation excavations to ensure sound bearing on rock. In the background concrete column pedestals are being placed and erection of structural steel framing for the process plant is underway.

Ekati Diamond Mine July 1, 1997



In 1997, all progress targets for the Ekati Diamond Mine project were met:

- 2,022 truckloads of construction materials and fuel were shipped to the site on the winter ice road from Yellowknife.
- The initial mining fleet arrived on site and began prestripping the Panda pit.
- The frozen core dam at Panda Lake was completed.
- The 357-room accommodation complex was opened to house the large construction workforce. It has a gymnasium, dining room, kitchen, food storage area, camp administration, check-in and check-out, security control, lounges, weight training room and squash court.
- Structural steel for the rest of the mining complex was erected and clad. This included the primary crusher, coarse ore storage building, process plant, power plant, truck shop and offices, truck warming shed, security building and ammonium nitrate storage facility.
- Temporary heating was established.
- Work moved inside the buildings before the onset of winter.

By January 1998, the project had achieved a record for safety in the Northwest Territories when a million hours were worked without a lost-time accident.

The winter ice road was opened on time in January 1998, and the machinery and equipment needed to complete the mine was moved in, including heavy processing, mining and power generating equipment as well as a year's supply of fuel (56 million litres).

In February, the truckshop and ammonium nitrate storage facility were handed over to BHP by the contractors. By the end of April the Ekati Diamond Mine was 85 per cent complete.

DEVELOPMENT PHILOSOPHY

- Ensure safe construction and operating conditions.
- Use environmentally sound practices.
- Fabricate and pre-assemble as much as possible off-site.
- Use modular design wherever possible.
- Optimize on-site labour during construction and operations.
- Use proven and efficient technology.
- Ensure energy efficiency.
- Ensure security and confidentiality.

Targets for Northern employment and purchases have been exceeded during construction. Northerners were targeted to make up 33 per cent of the workforce. Actual Northern employment was 41 per cent. The target for Northern spending was 28 per cent compared with an actual figure of 51 per cent. Recruitment is underway for permanent employees to operate the mine.

The Ekati Diamond Mine involves both mining kimberlite ore and treating it to recover rough industrial and gem quality diamonds. A large investment in infrastructure has been made to support these two operations. The mine plan involves mining five separate kimberlite pipes. The capacity of the process plant, as well as the size, location and unique physical properties of each kimberlite pipe have been integrated into the design. The plan has taken into account the quality and value of the diamonds to be recovered and the quantity the market will accept. It ensures people can work safely and that the environment is protected.

Three of the five kimberlite pipes — Panda, Koala and Fox — are near the site of the main processing plant, Sable is 17 km to the north and Misery is 29 km to the southeast.

All five will be developed using open pit mining, followed by underground mining at Panda and Koala because of the higher value of their ore. Excavation of kimberlite is deepest in the middle of the pipe, and is carried out in a way that produces a spiral road out of the mine, on which trucks are driven to remove the ore.

All the pipes are similar, as are the pit designs. Benches will be cut in the host granitic rock for safety and stability. The rock face will be advanced using explosives. Excavated rock will be loaded into large haul trucks by hydraulic shovels and driven either to waste rock dumps, a central processing plant or to stockpiles for processing later. The mine plan is designed to provide a reliable supply of ore to the process plant. A stockpile of ore will be available if mining is interrupted. The Panda and Koala pipes will be mined underground by sub-level caving.

June 1997

Concrete foundations for primary gyratory crusher. The project comprises over 23,000 m³ of concrete all produced and placed in accordance with a rigorous quality assurance program.

PARTNERSHIP WITH PEOPLE

The Northwest Territories is sparsely populated. Most of the residents are aboriginal. The nearest community to the Ekati Diamond Mine is the small Dogrib settlement of Snare Lake, some 180 km southwest, while the nearest major centre, Yellowknife, is 300 km southwest.

The Ekati Diamond Mine will be one of the largest industrial operations in the Northwest Territories. It is expected to reduce overall unemployment in the NWT by 1.4 per cent while being built and by three per cent once in operation. About 600 people will be directly employed. Nearly two out of every three employees are likely to be residents of the North and half of these are expected to be aboriginal.

Yellowknife will receive substantial economic benefits from the project. During operations, about 70 cents of every purchase dollar is likely to be spent in the North, with more than 60 per cent of this in Yellowknife.

Local aboriginal communities will also be affected. Although residents say they want to participate more in the wage economy, they are concerned that the changes this will bring — such as time away from communities, work schedule requirements and higher income levels — could compound existing social problems. Realizing that solutions to social problems are only effective when initiated by the communities themselves, the mine operators have offered to assist in partnership programs to help communities build on existing strengths.

The Ekati Diamond Mine will provide substantial economic benefits to the NWT, and to Canada as a whole. These benefits include jobs, the purchase of capital and consumable goods and services, and revenues paid to the territorial and federal governments as taxes and royalties.

July 1997

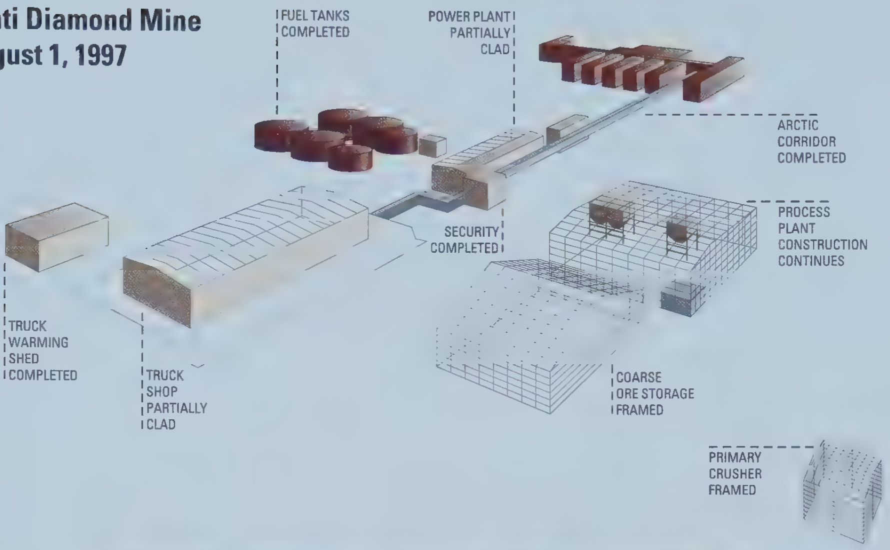
Surface mining underway in Panda Pit including preparations for pit draining and diversion channels. Beyond Panda Pit is Koala Lake and the new camp on the shores of Kodiak Lake.

The Broken Hill Proprietary Company Limited is the parent company of BHP Diamonds Inc. BHP is Australia's largest industrial and natural resources company, with about 60,000 employees in more than 50 countries. BHP Diamonds Inc., the company's vehicle for diamond exploration and development, is part of BHP World Minerals, one of eight main business groups in the BHP organization. It is an incorporated company based in Vancouver, B.C. BHP Diamonds Inc. is the operator of the Ekati Diamond Mine.

July 1997

On site fabrication of diesel fuel storage tanks in progress. The steel plate was curved off site and transported to site for erection. Each of the four tanks holds 10 million litres of fuel and with the secondary tanks and other storage facilities onsite more than 50 million litres of fuel can be stored. This caters for normal site usage between periods of ice road access.

Ekati Diamond Mine August 1, 1997



August 1997

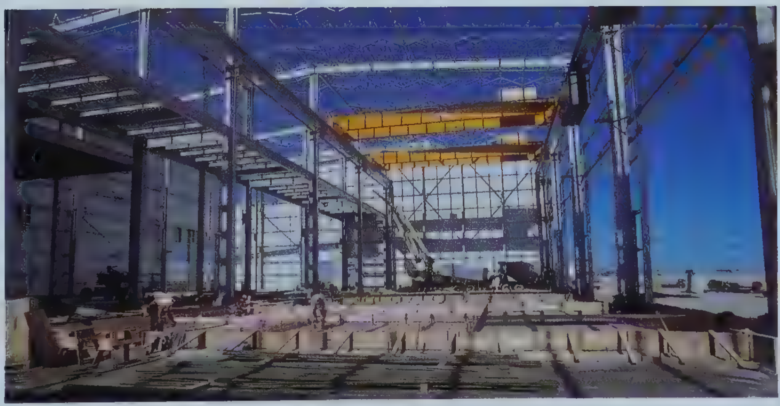
Aerial shot of site showing progress on erection of buildings and progress towards completing external cladding of buildings before winter.

August 1997

Eastern end of process plant and coarse ore storage building showing raw and process water storage tanks being erected prior to erection of main building framing and cladding over.

August 1997

Interior shot of truck shop showing main frame work and some wall cladding complete. Floor slabs are being prepared for concrete pouring including the preparation of glycol distribution lines for the in-floor heating system. The secondary framing on the left is support framing for the suspended office areas within the truck shop.



August 1997

This aerial shot shows the ammonium nitrate storage building under construction. The building can store 10,000 tonnes of bulk ammonium nitrate and, for safety reasons, is located in a remote area of the site away from the main camp and process plant. Bulk ammonium nitrate from this facility is transported to another remote building, the emulsion plant, for conversion into emulsion and stored until required by mine blasting operations.

Diamonds are found in extremely small quantities in host kimberlite rock. On average, at Ekati it will take three tonnes of rock to recover three carats of diamonds, together about the size of a green pea.

Methods well established in Australia and South Africa are used to recover diamonds from the host rock. No toxic chemicals are used in the process, which, broadly speaking, separates heavy minerals (diamonds), from lighter minerals using a sequence of:

- Carefully crushing and scrubbing the kimberlite ore to loosen the diamonds from softer rock.
- Washing the crushed material to remove fine particles and then passing the gravel through a screen of a known size. Larger rock is returned to the initial crushing phase and some waste rock is removed as tailings.
- Using heavy medium separation to float lighter minerals while allowing the diamonds, and other heavy minerals, to settle.
- Separating the diamonds from other heavy minerals by using an X-ray sorter. This method is based on the fact that diamonds fluoresce when X-rayed. When a diamond fluoresces a jet of air deflects the stone into a chute.
- Cleaning the diamonds with acid to dissolve silicates and remove any organic and metal oxide coatings.
- Mechanically sieving, weighing and packaging rough stones by size.

Final cleaning and hand sorting for marketing purposes will be done off-site.

Waste from the process plant, known as tailings, will be separated into two sizes. The coarse tailings, which make up 10 to 20 per cent of the total, will be hauled by truck to a waste rock dump. The fine tailings will be thickened and pumped to a nearby lake, which will be modified to store the waste.

September 1997

Structural steel framing to the recovery and office area of the process plant. Over-all the project contains more than 5,500 tonnes of structural steel of which 4,500 tonnes are contained within the process plant.

DESIGN DRIVEN

Key aspects of the process design philosophy are:

- It allows for differences in ore from the various areas to be mined.
- The process plant is broken down into production modules which can accommodate higher throughput from plant expansion.
- The design is simple and emphasizes as few treatment steps as possible using large-scale, proven equipment. Standard equipment has been used to maximize economies of scale and minimize the holding of spare parts.
- Diamonds are liberated and recovered efficiently with the best technology available worldwide.
- Security is emphasized through all the processing stages. Diamonds are a high-value, easily transportable product. On-site processing will minimize hands on handling of diamonds.

February 1998

Interior view of power plant after initial installation of generators. Each of the five generators delivers 4.4 megawatts of electricity and is powered by a V16 Caterpillar engine. Heat generated by the engines is captured and used in the general space heating of facilities. Three machines are needed together to meet peak demand, with one in reserve and one undergoing scheduled maintenance. Once in operation this will be the largest stand alone power station in the Northwest Territories.

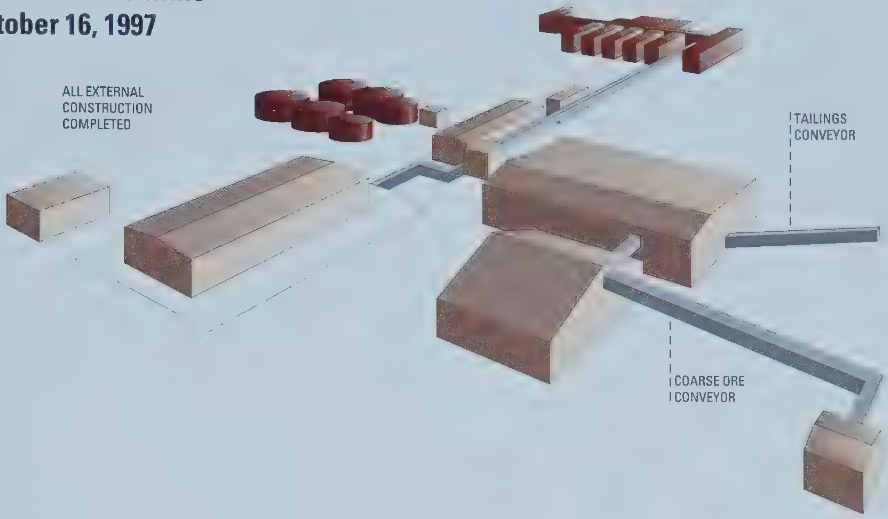
February 1998

Interior view of truck shop shortly after hand-over to operations. An air curtain is used at each door opening to prevent loss of heat from within the building. After hand-over to operations the building was used for assembly of mining equipment after delivery of components on the 1998 ice road.

February 1998

Underground section of the Arctic corridor approaching the truck shop. The corridor allows for all weather movement of personnel between facilities and a maintained temperature environment housing electrical, water, heating and waste water services out of the harsh external environment.

Ekati Diamond Mine
October 16, 1997



Mining rates for each pipe are determined by ore grade, diamond quality and the specific characteristics of the ore to be worked. Producing a consistent-product, both in quality and quantity, is important for marketing the diamonds. The ore will be initially processed at the rate of 9,000 tonnes a day. Processing could double to 18,000 tonnes a day with an investment of $80 million US. This expansion is planned for Year 10. A total of 78 million tonnes of ore, of which 85 per cent is defined as proven or probable reserves, and 508 million tonnes of waste rock are scheduled to be mined over the initial 17-year life of the project. The mine plan has been designed to provide a relatively constant revenue stream.

Five additional pipes which have been bulk sampled may have economic potential. Several other known pipes warrant additional work. The mine plan is somewhat dynamic based on exploration results and has previously been altered to replace one pipe (Leslie) with a more economic one (Sable). Because of this and continuing exploration activities, the joint venture anticipates that the mine will have a life longer than the 17 years forecast in BHP's feasibility study. The total life of the project is expected to be 20 to 25 years or more.

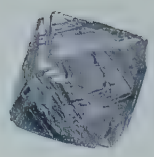
The ore reserves in the September 1996 feasibility study, and a timetable for mining them, are summarized below:

PRODUCTION YEARS

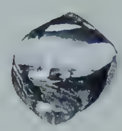
	Panda Pit	Misery Pit	Koala Pit	Fox Pit	Sable Pit	Panda U/G	Koala U/G
Production years	1-5	2-15	5-11	11-17	10-15	6-11	11-15

SUMMARY OF MINING RESERVES (MILLION TONNES)

Classification	Panda Pit	Misery Pit	Koala Pit	Fox Pit	Sable Pit	Panda U/G	Koala U/G	TOTAL
Proven	8.6	4.8	10.0	8.1	11.0	–	1.0	**43.5**
Probable	4.0	0.7	4.6	8.6	1.9	0.8	1.8	**22.4**
Total	**12.6**	**5.5**	**14.6**	**16.7**	**12.9**	**0.8**	**2.8**	**65.9**
Mining reserves as a percentage of scheduled production	100	100	96	66	100	33	70	**85**
Grade (ct/tonne) (diluted basis)	1.09	4.26	0.76	0.40	0.93	0.97	1.63	**1.09**
Average value (US$/ct)	130	26	122	125	64	130	122	**84**

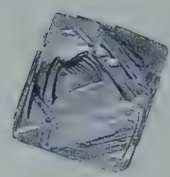


Panda
7mm diameter stone

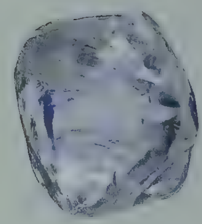


Misery
6 mm diameter stone

Koala
9mm diameter stone



Fox
8 mm diameter stone



Sable
11.5 mm diameter stone

Gemstones recovered from bulk sampling of the five pipes to be mined at Ekati Diamond Mine

DIAMOND GENESIS

Diamonds are found in volcanic shoots known as kimberlite pipes. Kimberlite is a rare volcanic rock type. Diamonds are a crystal form of carbon that is stable at depths of 150 km or more below the earth's surface. Kimberlite magma originates at similar depths.

The diamond stability field, under the right combination of pressure and temperature, seems to occur chiefly under archons, the oldest part of known landforms. Studies have located archons in southern Africa and Russia, underneath the diamond fields there. The Northwest Territories' barren lands host another archon, with the oldest dated rocks on earth.

Kimberlites generally erupt to the earth's surface bringing rocks, and in some cases, diamonds with them. If the diamonds are to survive, they must travel to the surface quickly, otherwise they revert to graphite or burn.

Near the surface, unrestricted by the pressure of surrounding rock, kimberlites blow out into carrot shaped craters. In the Northwest Territories, most kimberlite pipes are small and located under lakes which were left behind when softer kimberlite rock was removed by glacial action.

The oldest kimberlites on earth are over 1.5 billion years old, the youngest 40 million years old. The kimberlites of the Ekati Diamond Mine are thought to be 50 to 60 million years old.

The total investment at Ekati is estimated at about $700 million US and reflects all project costs to the start of production. It includes past exploration, capital project costs, working capital to the start of production, cash outlays until diamond revenue is achieved, and prestripping costs for the Panda pipe.

The cash operating costs for the first nine years of the diamond mine are estimated at between $30 US and $35 US per tonne. From Year 10 onwards, the costs are estimated to range between $20 US and $25 US per tonne. The average operating costs over the life of the project are estimated at between $22 US and $27 US a tonne. These figures include prestripping costs, with the exception of Panda, for which prestripping costs are included in capital costs.

Surface transportation to the site is possible across a winter ice road from mid-January to mid-April. Three major ice road campaigns were planned to support construction of the mine. In 1997, bulk supplies such as cement, steel, camp modules and construction generating equipment, were moved by truck to the site.

In 1998, large processing, mining and power generating equipment and a year's supply of fuel were trucked in. In 1999, construction equipment will be removed from the mine site and fuel and operating consumables will be moved in.

When the ice road is not operating, the site is supported by air. An airstrip suitable for Hercules and Boeing 737 aircraft has been built to transport people and supplies year-round. Infrastructure includes a 23 megawatt diesel power plant, making the mine the second largest power producer in the Northwest Territories. Transportation to the site will be provided by aircraft from Yellowknife and several other local communities. Once operating, a permanent workforce of about 600 people will work on site in a variety of shift schedules, but mainly two weeks in and two weeks out.

The Ekati Diamond Mine is expected to produce 3.5 to 4.5 million carats of rough industrial and gem quality diamonds a year: about four per cent of current global production by weight, and six per cent by value.

February 1998

Interior view of process plant showing ore handling conveyors. Ore is received from the primary crusher located externally and passes through a series of crushers, sorters and separators in preparation for delivery to the recovery area. In the recovery area ore is screened and passed through a sophisticated X-ray sorting system where diamonds are separated and extracted in a high security hands-free environment.

Exploration

NWT DIAMONDS PROJECT

Northwest Territories — the Ekati Diamond Mine

Dia Met's most significant asset is a 29 per cent interest in the Core Zone joint venture, which comprises approximately 450,000 acres in the Lac de Gras area of the Northwest Territories. BHP Diamonds Inc. is building Canada's first commercial diamond mine on the property. The Core Zone claims contain all five diamondiferous kimberlite pipes that are in the current mine development plan. Dia Met also holds a 7.8 per cent interest in approximately 510,000 acres known as the Buffer Zone joint venture which surrounds the Core Zone. The Buffer Zone also includes a separate block of claims located 30 km to the southeast.

Exploration core drilling during the summer of 1997 resulted in the discovery of 23 new kimberlite pipes, 16 of which are located in the Core Zone. This brings the total number of kimberlite pipes discovered on the property to 100. Seventy five of these kimberlites are located in the Core Zone.

Four of the 23 kimberlites discovered in 1997 produced significant microdiamond results. The results were obtained from analysis of split 4.76-cm-diameter drill core samples submitted to an independent laboratory. The summer drilling program delineated the Koala North and Beartooth pipes that were discovered in 1996. Also, the additional drill core samples were sent for analysis.

The Koala North and Beartooth kimberlites are located in the immediate vicinity of the Ekati mine development area where mining is underway at the Panda pit. Results of microdiamond analysis, comparable to both the Panda and Koala pipes, led to the decision to collect mini-bulk samples from the two pipes in early 1998. Both pipes are comparatively small.

Approximately 200 tonnes were taken from each of these pipes by large-diameter reverse circulation drilling. The program was completed on March 7, 1998. The kimberlite bulk samples were processed at the 10-tonne per hour dense media separation plant that was built on site in 1993. Final diamond grade and valuation figures are expected in May 1998.

Continued exploration at the Ekati Diamond Mine has two objectives:

- To improve the near term cash flow of the project by substituting more economic pipes (as was the case when the Sable pipe, discovered in 1996, replaced the Leslie pipe in the mine development plan).
- To expand the reserve base of the project.

Exploration programs similar in scope to previous programs are being planned for the project in 1998.

Finland

Dia Met will continue exploration on its 100-per-cent owned Finland project. In addition, a wholly-owned Dia Met subsidiary entered into a joint venture in February 1998 with Australian company Ashton Mining Limited on Ashton's Finland diamond project. The joint venture covers two areas in eastern Finland, one of about 38,475 sq km and the other of about 40,750 sq km. Dia Met's subsidiary is required to spend $4 million Cdn by December 31, 2000 to earn a 60 per cent interest in the Ashton joint venture. Of this amount, a minimum of $2 million Cdn must be spent by December 31, 1999.

Ashton has been active in diamond exploration in Finland since 1986. Its country-wide regional sampling program has identified several separate and distinct areas from which kimberlite indicator minerals are being shed. Ashton's follow-up sampling has identified indicator mineral trains previously unknown to Dia Met. Dia Met aims to discover the sources of these trains.

The two companies' large databases, which are being integrated, are complementary. Dia Met has expertise in applying indicator mineral chemistry and in identifying kimberlite targets using geophysics. Through its long exploration in Finland, Ashton has learned a great deal about the mechanics of local glacial dispersion and has developed proprietary techniques to follow up kimberlite indicator mineral trains.

Ashton has discovered 24 kimberlite pipes in

Finland. Sixteen of these are confirmed to be diamond bearing. The company has collected mini-bulk samples from five of the diamond bearing pipes and reported that four of these indicated grades of commercial significance. Of the 24 pipes, 10 are still held under mineral claim and form part of the joint venture. Dia Met's subsidiary will further evaluate the diamondiferous kimberlites this year. Knowledge of the geochemical and geophysical signatures of these pipes will be of great assistance in the ongoing search for new pipes.

Greenland

In August 1997, Dia Met Minerals Ltd. entered into two separate agreements on diamond properties in west Greenland with Quadrant Resources (Pty) Ltd. In the first, Dia Met agreed to purchase Quadrant's 49 per cent interest in a joint venture property 51-per-cent-owned and operated by Monopros Limited, De Beers' Canadian subsidiary.

Prior to this, Dia Met had carried out independent heavy mineral sampling on a portion of the 1,972 sq km property. The Dia Met sampling results confirm the earlier Monopros indicator mineral results and suggest the presence of significant diamondiferous source rocks. The aim of ongoing exploration is to discover the source of the kimberlite indicator minerals, and if dykes or pipes occur, to determine their size and commercial potential.

Monopros entered into the original agreement with Quadrant in April 1996, and was the first company to begin systematic diamond exploration in west Greenland. In 1997, Monopros flew 3,336 line kilometres of airborne magnetic and electromagnetic surveying and collected 804 heavy mineral samples on the joint venture claims. Several geophysical targets were detected, some with indicator mineral anomalies and kimberlite boulder trains close by. During the spring and summer of 1998, which will be the third exploration season on the property, Monopros is contemplating additional work including its first core drilling program to test kimberlite targets.

Dia Met is responsible for 49 per cent of all costs incurred by the joint venture in order to retain its 49 per cent interest in the property. Quadrant has the right to 40.816 per cent of the proceeds received by Dia Met from the property if it contributes its pro rata share of program costs, and one per cent if it does not.

In a second and separate agreement with Quadrant, Dia Met has acquired a 31 per cent interest in a large property of 15,530 sq km, also located in west Greenland. One of the exploration licences involved in this agreement surrounds Dia Met/Monopros ground. Dia Met manages and carries out the operations for this joint venture and must incur minimum exploration expenditures of 60.78 per cent of $1.9 million Cdn in both 1997 and 1998 to be vested. The 1997 expenditures have been incurred.

The exploration program on the Quadrant property commenced in July 1997. Approximately 15,500 line kilometres of airborne magnetic and electromagnetic geophysical surveying were completed in areas surrounding the Dia Met/Monopros claims where the most favourable indicator minerals were originally detected by Dia Met. A total of 1,357 regional heavy mineral samples and magnetic anomaly follow-up samples were collected by the end of September. The samples are being processed and the geophysical data analyzed. The 1998 field season is being planned and may include the drill testing of targets if warranted by the ongoing analysis.

Financial Statements

Management's Discussion & Analysis

The following discussion and analysis of the results of operations and the Company's financial position should be read in conjunction with the consolidated financial statements and related notes.

Results of Operations

For the fiscal year ended January 31, 1998, ("fiscal 1998") the Company earned revenue of $5,881,715 compared to $3,141,783 for the fiscal year ended January 31, 1997 ("fiscal 1997") and $1,779,420 for the fiscal year ended January 31, 1996 ("fiscal 1996").

Larger balances of cash and temporary investments held by the Company in fiscal 1998 over fiscal 1997 and 1996 resulted in interest and other income being up significantly in fiscal 1998 over the previously reported periods. These larger balances of cash and temporary investments resulted from the cash received during the year, from a public offering of the Company's shares and the issue of shares on the exercise of director and employee stock options.

Revenue from aircraft operations was up significantly between fiscal periods presented due to increases in the outside charter of aircraft.

Total expenses were $8,190,282 in fiscal 1998 compared to $4,897,980 in fiscal 1997 and $3,835,060 in fiscal 1996.

Aircraft operations expenses increased each fiscal year reflecting the general increase in overall operations indicated by the increased revenues.

Depreciation was down in fiscal 1998 from fiscal 1997 due to a lower investment in aircraft in fiscal 1998 and was up in fiscal 1997 over fiscal 1996 due primarily to additional depreciable assets being purchased late in fiscal year 1996 and in fiscal 1997.

General and administrative expenses increased to $2,116,648 in fiscal 1998 compared to $1,692,585 in fiscal 1997, due primarily to increases in employee related costs, increased expenditures in the investor relations and corporate communications areas, and a substantial increase in British Columbia General Corporation Capital Tax. This tax is assessed on the taxable capital of the Company which increased substantially during the year because of the increase in issued share capital and the increase in the Company's obligations for the Ekati Diamond Mine, both of which are included in the taxable capital base on which the tax is assessed. These increases in expenses in fiscal 1998 were offset somewhat by a reduction in professional fee expenses incurred during the year over previously reported periods. General and administrative costs increased for fiscal 1997 over fiscal 1996, reflecting increased professional fees related to various general business matters, higher interest expense due to increased borrowing on the Company's margin account throughout the year, and general cost increases in a number of office overhead items.

The write off of the costs of mineral properties abandoned was $1,707,041 in fiscal 1998 compared to $124,048 in fiscal 1997 and $1,491,194 in fiscal 1996. Fiscal 1998 write offs related primarily to exploration programs carried out in Western Canada.

Aircraft operations carried on through the Company's 100-per-cent-owned subsidiary, Northern Air Support Ltd. (NAS), continued to record operating losses for consolidation purposes amounting to $601,657 in fiscal

1998 compared to a loss of $700,724 in fiscal 1997 and a loss of $139,295 in fiscal 1996. Approximately $98,920 of the fiscal 1998 loss related to depreciation and $355,814 related to profit eliminated on intercompany revenues and the elimination of other intercompany transactions. Prior to the fiscal 1998 year end, NAS sold its only aircraft and hangar to another 100-per-cent-owned subsidiary of the Company. Subsequent to fiscal 1998, the Company sold 90 per cent of its interest in NAS to a third party for the assumption of approximately $600,000 in debt owed by NAS to the Company. No significant gain or loss resulted from this transaction. It is not the intention of the Company, at this time, to be actively engaged in aircraft operations in the forseeable future.

The gain on disposal of capital assets in fiscal 1998 resulted from the disposal of two helicopters by NAS, one of which was replaced and subsequently sold to the subsidiary noted above.

Income tax expense is comprised entirely of Large Corporation Tax and increased substantially in fiscal 1998 over fiscal 1997 and 1996. The reasons for this increase parallel those set out above for provincial capital tax.

To date, the Company has not earned any income from its mining operations. However, the Ekati Diamond Mine is expected to commence commercial production from Canada's first diamond mine in October 1998 and therefore the Company expects to report some operating results and cash flows from the mine in its 1999 fiscal year.

Liquidity and Cash Resources

At January 31, 1998, the Company's cash position was $42,575,828 which was an increase in cash of $39,753,844 from January 31, 1997 and $35,687,080 from January 31, 1996.

In all fiscal years, cash was received from interest and other income and from revenue from aircraft operations of the Company's subsidiary. In fiscal 1998, cash totaling $47,554,891 was received from the issue of shares by public offering and from the issue of shares on the exercise of director and employee stock options.

In addition to being used to cover operating expenses in all fiscal years, a significant use of cash in fiscal years 1998, 1997, and 1996 was for expenditures on mineral properties which amounted to $5,625,185 (net of option payments applied in fiscal 1998 and net of the Company's share of the Ekati Diamond Mine joint venture expenditures financed by BHP Diamonds Inc), $4,256,031, (net of option payments applied in fiscal 1997) and $3,125,191, (net of option payments applied in fiscal 1996).

At January 31, 1998, the Company had working capital of $42,685,712 compared to working capital of $2,581,398 as at January 31, 1997.

The Company anticipates incurring exploration expenditures in fiscal 1999 of between $6,000,000 and $8,000,000 (excluding any exploration expenditures to be funded from option payments received from third parties or the Company's share of Ekati Diamond Mine joint venture expenditures to be financed by BHP), and expects general office and administration expenses to increase over previous years as the Company grows and develops to meet its new challenges as commercial production related to the Ekati Diamond Mine approaches.

The joint venture agreements with BHP provide that BHP must finance and/or provide financing for up to $500 million US for the first mine and that the Company must repay its proportionate share of funds advanced by BHP, with interest at CDOR plus three per cent per annum, out of 90 per cent of its share of net after tax cash flow from the mine until all amounts advanced are repaid.

The feasibility study for the Ekati Diamond Mine estimates that the capital cost of the project to start of production will be approximately $700 million US, including contingencies. The capital cost estimate includes all project costs to the start of production, prestripping costs for the first pipe to be put into production, working capital to the commencement of production, and cash outlays incurred during the initial production of diamond stock until the diamond revenue is established. Approximately $59 million US of the total capital costs to the start of production are not shareable costs between the joint venture participants and are borne exclusively by BHP. Of the sharable funding requirements in excess of $500 million US, the Company's proportionate share is approximately $40 million US. The Company has made satisfactory arrangements with BHP to obtain financing for this amount, subject to the Company reaching agreement with BHP on a marketing plan for the project.

In fiscal 1998, the Company booked its investment in the joint ventures comprising the Ekati Diamond Mine in the amount of $171,833,684 and its obligations to BHP totaling the same amount. The repayment terms of the obligations are as set out above. Any current portion of these obligations cannot be estimated at this time.

Given its cash and working capital position at January 31, 1998, the estimated interest and other income for fiscal 1999, the level of expenditures (capital and otherwise) estimated for fiscal 1999 and the financing arrangements with BHP related to the Ekati Diamond Mine, the Company will not require additional working capital or any financing, other than that to be provided by BHP relative to the mine, during the next twelve months.

Year 2000 Issues

On January 30, 1998, the Canadian Securities Administrators issued a notice (The Year 2000 Challenge Disclosure Issues) requiring all reporting issuers to assess the risks and uncertainties facing the issuer with respect to computer problems resulting from when computer calendars turn over to the year 2000.

The Company reports that the assessment and implementation phases of its Year 2000 program covering internal and key external supplier systems is in progress and expected to be complete by the end of August 1998.

BHP, as operator of the Ekati Diamond Mine, has reported to the Company that the assessment and implementation phases of the mine's Year 2000 program is in progress and expected to be complete by the end of July 1999.

Given the information known at this time, it is currently not expected that the costs of becoming Year 2000 compliant will have a material adverse impact on the Company's liquidity or its operations.

Management's Responsibility for Financial Statements

The consolidated financial statements, the notes thereto and other financial information contained in the annual report are the responsibility of the management of Dia Met Minerals Ltd. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, which is comprised of Directors, none of whom are employees or officers of the Company, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting to Directors who approve the consolidated financial statements.

The consolidated financial statements have been audited by KPMG, the independent auditors, in accordance with generally accepted auditing standards. The auditors have full and unrestricted access to the audit committee.

James E. Eccott
President and
Chief Executive Officer

Grant Miller
Secretary and
Chief Financial Officer

Kelowna, British Columbia
March 26, 1998

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Dia Met Minerals Ltd. as at January 31, 1998 and 1997 and the consolidated statements of operations and deficit, mineral properties and changes in financial position for the years ended January 31, 1998, 1997 and 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 1998 and 1997 and the results of its operations, and changes in its financial position for the years ended January 31, 1998, 1997 and 1996 in accordance with generally accepted accounting principles in Canada.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for the years ended January 31, 1998, 1997 and 1996 and shareholders' equity as at January 31, 1998 and 1997, to the extent summarized in note 13 to the consolidated financial statements.

KPMG
Chartered Accountants

Kelowna, Canada
March 26, 1998

Consolidated Balance Sheets

January 31, 1998 and 1997

	1998	1997
ASSETS		
Current assets:		
Cash	$ 7,784,985	$ 269,268
Temporary investments *(note 1(e))*	34,790,843	2,629,915
Accounts receivable	1,064,394	381,313
Inventory	143,202	131,390
Prepaid expenses	331,097	279,572
	44,114,521	3,691,458
Cash restricted for exploration *(notes 9(c)and 9(g))*	570,377	732,621
Capital assets *(note 2)*	2,655,880	2,230,393
Mineral properties:		
Mineral and exploration interests *(note 3)*	607,413	418,942
Deferred exploration and development costs *(note 4)*	12,376,166	8,837,931
Investment in the Ekati Diamond Mine *(note 5)*	173,492,531	1,467,409
	186,476,110	10,724,282
	$ 233,816,888	$ 17,378,754
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 939,134	$ 961,057
Income taxes payable	489,675	—
Loan payable	—	77,199
Current portion of long term debt	—	71,804
	1,428,809	1,110,060
Long term debt *(note 6)*	—	300,019
Obligations for the Ekati Diamond Mine *(note 7)*	171,833,684	—
Deferred option payments *(notes 9(c) and 9(g))*	570,377	732,621
Shareholders' equity:		
Share capital *(note 8)*	72,454,851	24,899,960
Deficit	(12,470,833)	(9,663,906)
	59,984,018	15,236,054
Agreements, commitments and contingencies *(note 9)*		
Related party transactions *(note 10)*		
Subsequent events *(note 11)*		
	$ 233,816,888	$ 17,378,754

See accompanying notes to consolidated financial statements

On Behalf of the Board:

Director: James E. Excell

Director: K.A. Christofferson

Consolidated Statements of Operations and Deficit

	Years ended January 31, 1998	1997	1996
Revenue:			
Aircraft operations	**$ 3,674,015**	$ 2,277,271	$ 911,806
Diamond recovery plant operations	**—**	35,383	—
Gain on disposal of capital assets	**761,497**	—	—
Interest and other income	**1,446,203**	829,129	867,614
	5,881,715	3,141,783	1,779,420
Expenses:			
Aircraft operations	**4,176,752**	2,734,054	826,835
Cost of mineral properties abandoned	**1,707,041**	124,048	1,491,194
Depreciation	**176,737**	286,019	240,245
Diamond recovery plant operations	**13,104**	61,274	6,658
General and administrative	**2,116,648**	1,692,585	1,270,128
	8,190,282	4,897,980	3,835,060
Loss before income taxes	**(2,308,567)**	(1,756,197)	(2,055,640)
Income taxes *(note 12)*	**(498,360)**	(3,996)	(5,469)
Loss for the year	**(2,806,927)**	(1,760,193)	(2,061,109)
Deficit, beginning of year	**(9,663,906)**	(7,903,713)	(5,842,604)
Deficit, end of year	**$ (12,470,833)**	$ (9,663,906)	$ (7,903,713)
Loss per share *(note 1(l))*	**$ (.10)**	$ (.06)	$ (.08)

See accompanying notes to consolidated financial statements

Consolidated Statements of Mineral Properties

		Years ended January 31,	
	1998	1997	1996
Expenditures during the year for mineral and exploration interests and deferred exploration and development:			
Mineral and exploration interests	**$ 196,334**	$ 325,949	$ —
Deferred exploration and development costs:			
Claims exploration, laboratory, assay and engineering expenditures	**8,127,889**	5,513,657	3,206,583
Management fees and salaries	**182,914**	120,854	62,646
Office and other	**360,075**	23,883	10,471
Professional fees	**204,417**	210,512	84,531
Travel and other	**123,440**	139,853	131,014
Ekati Diamond Mine	**171,833,684**	—	—
	180,832,419	6,008,759	3,495,245
Less:			
Deferred option payments applied	**(3,569,884)**	(2,078,677)	(370,054)
	177,485,869	4,256,031	3,125,191
Less:			
Cost of programs abandoned or sold:			
Mineral and exploration interests	**(7,863)**	—	(7,931)
Deferred exploration and development costs	**(1,699,178)**	(124,048)	(1,490,679)
Compensation for loss of mineral samples	**—**	—	1,027
Other income	**—**	—	6,389
	(1,707,041)	(124,048)	(1,491,194)
Balance, beginning of year	**10,724,282**	6,592,299	4,958,302
Balance, end of year	**$ 186,476,110**	$ 10,724,282	$ 6,592,299

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Financial Position

	Years ended January 31, 1998	1997	1996
Cash provided by (used in):			
Operations:			
Loss for the year	**$ (2,806,927)**	$ (1,760,193)	$ (2,061,109)
Items not involving cash:			
Depreciation	**176,737**	286,019	240,245
Cost of mineral properties abandoned	**1,707,041**	124,048	1,491,194
Gain on disposal of capital assets	**(761,497)**	—	—
Change in non-cash operating working capital	**(278,666)**	698,272	(595,652)
	(1,963,312)	(651,854)	(925,322)
Financing:			
Deferred option payments received	**3,426,327**	1,700,000	1,257,123
Deferred option payments applied to expenditures on mineral properties	**3,569,884**	2,078,677	370,054
Increase (decrease) in long term debt	**(371,823)**	371,823	—
Obligations for the Ekati Diamond Mine	**171,833,684**	—	—
Shares issued for cash	**47,554,891**	1,239,125	—
	226,012,963	5,389,625	1,627,177
Investments:			
Proceeds from disposal of capital assets	**2,145,470**	—	—
Expenditures on mineral and exploration interests	**(196,334)**	(325,949)	—
Expenditures on deferred exploration and development	**(180,832,419)**	(6,008,759)	(3,495,245)
Purchases of capital assets	**(1,986,197)**	(769,827)	(377,226)
Cash restricted for exploration	**(3,426,327)**	(1,700,000)	(1,257,123)
	(184,295,807)	(8,804,535)	(5,129,594)
Increase (decrease) in cash	**39,753,844**	(4,066,764)	(4,427,739)
Cash, beginning of year	**2,821,984**	6,888,748	11,316,487
Cash, end of year	**$ 42,575,828**	$ 2,821,984	$ 6,888,748
Cash is defined as:			
Cash	**$ 7,784,985**	$ 269,268	$ 104,105
Temporary investments	**34,790,843**	2,629,915	7,692,493
Loan payable	**—**	(77,199)	(907,850)
	$ 42,575,828	$ 2,821,984	$ 6,888,748

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years ended January 31, 1998, 1997 and 1996

Dia Met Minerals Ltd. is incorporated under the laws of British Columbia and its principal business activities include mineral property exploration and development.

1. **Significant accounting policies:**

a) Basis of presentation:

The Company, directly and indirectly through joint exploration and development ventures and other arrangements, is in the process of exploring and developing its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable, except for the property associated with the Ekati Diamond Mine which is proceeding to production (see note 5).

The recoverability of the amounts shown for mineral properties and capital assets of $186,476,110 and $2,655,880, respectively, as at January 31, 1998, other than costs of $173,492,531 associated with the Ekati Diamond Mine, is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of the properties and the generation of sufficient income through future production from, or the disposition of, such assets.

These financial statements have been prepared on the basis of accounting principles generally accepted in Canada and are expressed in Canadian dollars. The results of applying accounting principles generally accepted in the United States are set out in note 13.

b) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

d) Fair values of financial instruments and credit risk:

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities and income taxes payable approximate fair value because of the short term nature of these instruments. The fair value of temporary investments is disclosed in note 1(e). The carrying amount of the bank loan and payable to BHP Diamonds Inc. included in the obligation for the Ekati Diamond Mine approximate fair value because their interest rates fluctuate with the market. Credit risk on accounts receivable is limited to the outstanding balance of such accounts.

e) Temporary investments:

Temporary investments are stated at the lower of cost and quoted market value.

	1998	1997
Quoted market value	**$ 36,558,171**	$ 2,835,954

f) Inventory:

Inventory is stated at the lower of cost and net realizable value.

g) Capital assets:

Capital assets are stated at cost. Depreciation is provided using the following methods and annual rates:

ASSET	METHOD	RATE
Aircraft operations:		
Aircraft	Straight-line	20%
Utility and shop equipment	Declining balance	20%
Operations equipment	Declining balance	20%
Office equipment	Declining balance	20% and 30%
Building	Straight-line	4%
License	Straight-line	2.5%
Leasehold improvements	Straight-line	20%
Diamond recovery plant:		
Building	Straight-line	2.5%
Machinery and equipment	Straight-line	2.5%
Furniture and fixtures	Straight-line	10%
Head office:		
Computer software	Declining balance	100%
Furniture, fixtures and equipment	Declining balance	15%
Leasehold improvements	Straight-line	20%
Exploration:		
Equipment	Declining balance	15%

h) Mineral properties:

The amount shown for mineral properties includes the direct costs of acquiring, maintaining, exploring and developing properties, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. All other costs, including administrative overhead, are expensed as incurred. Mineral properties acquired for share consideration are recorded at the fair value of the shares at the date of acquisition.

Management periodically reviews the carrying values of its investments in mineral properties with internal and external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre-determined holding period for properties with unproved reserves. However, properties which have not demonstrated suitable prospects at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral and exploration interests and deferred exploration and development costs represent unamortized costs to date and do not necessarily reflect present or future values.

The accumulated costs of mineral properties that are developed to the stage of commercial production will be amortized to operations through a combination of unit of production depletion based on proven and probable reserves and other reasonable and systematic methods of amortization. The actual methods and rates used will depend on the nature of the assets being amortized.

i) Joint exploration and development ventures:

A portion of the Company's exploration and development activities are conducted jointly with others and accordingly these financial statements reflect only the Company's share of expenditures for such activities.

j) Investment in the Ekati Diamond Mine:

The Company accounts for its investment in the Ekati Diamond Mine using the equity method because it is able to exercise significant influence but not control, or joint control, over the Mine.

1. **Significant accounting policies** (continued):

k) Foreign currency translation:

Amounts denominated in foreign currencies have been translated into Canadian dollars as follows:

i) Monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date;

ii) Non-monetary assets and liabilities at the rate of exchange prevailing at the time of acquisition of the assets or assumption of the liabilities; and

iii) Revenue and expenses at rates approximating the rates of exchange prevailing on the transaction date except for depreciation, which is translated at the same rate as the assets it relates to.

Gains or losses on translation are included in earnings.

l) Loss per share:

Loss per share has been calculated using the weighted average number of common shares outstanding during the years. The full exercise of share options referred to in note 8 is anti-dilutive for all years presented and consequently loss per share on a fully diluted basis has not been presented.

2. **Capital assets:**

1998	Cost	Accumulated depreciation	Net book value
Aircraft operations:			
Aircraft	$ 1,707,237	$ 56,944	$ 1,650,293
Utility and shop equipment	33,868	11,629	22,239
Operations equipment	83,784	25,114	58,670
Office equipment	34,117	15,447	18,670
Building	322,567	33,864	288,703
License	36,559	2,267	34,292
Leasehold improvements	7,150	715	6,435
	2,225,282	145,980	2,079,302
Diamond recovery plant:			
Land	13,934	—	13,934
Building	48,346	4,834	43,512
Machinery and equipment	84,540	8,454	76,086
Furniture and fixtures	15,000	6,000	9,000
	161,820	19,288	142,532
Head office:			
Computer software	18,044	9,409	8,635
Furniture, fixtures and equipment	210,382	52,769	157,613
Leasehold improvements	55,301	30,705	24,596
	283,727	92,883	190,844
Exploration:			
Equipment	289,539	46,337	243,202
	$ 2,960,368	$ 304,488	$ 2,655,880

1997	Cost	Accumulated depreciation	Net book value
Aircraft operations:			
Aircraft	$ 1,983,839	$ 637,895	$ 1,345,944
Utility and shop equipment	39,013	12,199	26,814
Operations equipment	89,988	20,756	69,232
Office equipment	28,368	10,593	17,775
Building	316,103	20,962	295,141
License	36,560	1,353	35,207
	2,493,871	703,758	1,790,113
Diamond recovery plant:			
Land	13,934	—	13,934
Building	48,346	3,626	44,720
Machinery and equipment	84,540	6,340	78,200
Furniture and fixtures	15,000	4,500	10,500
	161,820	14,466	147,354
Head office:			
Furniture, fixtures and equipment	130,994	31,960	99,034
Leasehold improvements	49,928	20,182	29,746
	180,922	52,142	128,780
Exploration:			
Equipment	177,455	13,309	164,146
	$ 3,014,068	$ 783,675	$ 2,230,393

3. Mineral and exploration interests:

Program	Nature of interest	**Claims cost 1998**	Claims cost 1997
Paul-Mike program	Joint exploration program	**$ 44,287**	$ 44,287
Albert River program	Joint venture program (abandoned -1998)	—	7,863
Jack claims	100% of mineral claims	**1,546**	1,546
Northern Gold and Bandit interest	1% net smelter royalty	**39,297**	39,297
Finland program	100% of exploration program	**522,283**	325,949
		$ 607,413	$ 418,942

4. Deferred exploration and development costs:

Deferred exploration and development costs have been incurred on individual mineral and exploration interests as follows:

	1998	1997
Paul-Mike program *(see note 9(g))*	**$ 420,611**	$ 420,611
Albert River program (abandoned - 1998)	—	203,074
Jack claims	**372,405**	372,405
Northern Gold and Bandit interest *(see note 9(a))*	**899,601**	899,601
Western Alberta joint program (abandoned - 1998)	—	771,844
Western United States program (abandoned - 1998)	—	54,300
Iron Range joint venture (abandoned - 1998)	—	46,042
Nevada Gold joint venture *(see notes 9(b) and 9(c))*	**51,506**	51,506
Finland program *(see note 9(d))*	**8,021,525**	4,864,063
Eastern Europe program *(see note 9(e))*	**1,367,586**	914,746
Magnesite Belt program *(see note 9(f))*	**67,921**	58,635
West Greenland program *(see note 9(h))*	**707,625**	—
West Greenland joint venture *(see note 9(i))*	**39,173**	—
Other	**428,213**	181,104
	$ 12,376,166	$ 8,837,931

5. Investment in the Ekati Diamond Mine:

The Company's investment in the Ekati Diamond Mine is held in two joint ventures consisting of the following:

a) **Investment in the Core and Buffer Zone Joint Ventures:**

Joint Venture	Core Zone	Buffer Zone	Total 1998	Total 1997
Company's interest	29.0%	7.8%	**1998**	1997
Current assets	$ 1,997,265	$ —	**$ 1,997,265**	$ —
Capital assets:				
Equipment and facilities	7,612,535	—	**7,612,535**	—
Exploration and development	47,750,945	587,562	**48,338,507**	—
Deferred stripping	7,353,840	—	**7,353,840**	—
Mine facilities under development	94,908,859	—	**94,908,859**	—
Total assets	159,623,444	587,562	**160,211,006**	—
Less liabilities	(3,268,703)	—	**(3,268,703)**	
Company's share of net assets in the joint venture	156,354,741	587,562	**156,942,303**	—
b) **Capitalized interest**			**14,891,381**	—
Total financed by obligations for the Ekati Diamond Mine *(note 7)*			**171,833,684**	—
c) **Direct expenditures made by the Company in the Ekati Diamond Mine**			**1,658,847**	1,467,409
			$ 173,492,531	$ 1,467,409

BHP Diamonds Inc., the joint venture participant holding a 51% interest, must provide, arrange and/or guarantee financing for the other joint venture participants up to their share of $500 million US for the first mine as long as its joint venture interest does not fall below 50%. The Company must repay its share of the mine financing plus interest at CDOR plus 3% per annum from 90% of its share of the net after tax cash flow from the mine until fully repaid. Funding in excess of $500 million US for the first mine and funding for a second and subsequent mines would require the Company to provide pro rata funding or suffer dilution of its interest in such mines.

The Company currently estimates its share of the estimated costs of the first mine in excess of $500 million US to be approximately $40 million US. The Company has made arrangements with BHP Diamonds Inc. to obtain financing for this amount on terms substantially the same as the funding for the first $500 million US referred to above, subject to the Company reaching agreement with BHP on a marketing plan for the project.

The Company must pay a royalty to a venturer ranging from $2.8002 to $23.4210 per undiluted tonne for certain production in excess of 1,379,000 undiluted tonnes from the Misery Pipe. Based upon existing production schedules, these royalty payments will commence in the year 2005.

The Company has a commitment to issue to two directors a total of 125,000 Class A shares and 500,000 Class B shares if there are more than 300 days of commercial production from a mine in this venture.

6. Long term debt:

	1998	1997
Promissory note repayable in monthly payments of $8,528 including interest at 9%, secured by aircraft	$ —	$ 371,823
Less:		
Current portion	—	71,804
	$ —	$ 300,019

7. Obligations for the Ekati Diamond Mine:

Obligations for the Ekati Diamond Mine consist of the following amounts :

	1998	1997
Bank loan maturing May 28, 1998	$ 118,500,000	$ —
Payable to BHP Diamonds Inc.	53,333,684	—
	$ 171,833,684	$ —

Interest accrues on the above obligations at CDOR plus 3% per annum compounded annually. The bank loan is secured firstly by the guarantee of Broken Hill Proprietary Company Limited and secondly by the Company's interest in the Ekati Diamond Mine. There is no other recourse against the Company for this loan. The payable to BHP Diamonds Inc. is unsecured.

BHP Diamonds Inc. must refinance, or provide alternative financing for the bank loan maturing May 28, 1998 (see note 5).

The Ekati Diamond Mine is scheduled to commence commercial production in the last quarter of the fiscal year ending January 31, 1999. However, the timing of positive cash flows from the mine available for repayment of the obligations for the Ekati Diamond Mine is not readily determinable. Therefore, it is not possible to determine a current portion of the obligations for the Ekati Diamond Mine.

8. Share capital:

Authorized:

	Number of Class A shares	Number of Class B shares
Balance, January 31, 1996, 1997 and 1998	100,000,000	25,000,000

Class A shares are without par value, entitled to one vote per share and in certain circumstances are convertible to one Class B share.

Class B shares are without par value, entitled to ten votes per share and are convertible to one Class A share.

The Class A and Class B shares have the same rights and are equal in all respects except as stated above.

Issued:

The following changes occurred to issued share capital during the periods indicated:

	Number of Class A shares	Amount related to Class A shares	Number of Class B shares	Amount related to Class B shares	Amount related to all shares
Balance, January 31, 1996	5,383,074	$ 3,659,436	21,532,296	$ 15,934,399	$ 19,593,835
Issued for cash on exercise of options	106,750	1,055,725	13,000	183,400	1,239,125
Issued in payment of litigation settlement	350,000	4,067,000	—	—	4,067,000
Balance, January 31, 1997	5,839,824	8,782,161	21,545,296	16,117,799	24,899,960
Issued for cash on exercise of options	322,250	3,872,840	375,200	5,146,160	9,019,000
Issued for cash on public offering	1,980,000	38,535,891	—	—	38,535,891
Balance, January 31, 1998	8,142,074	$ 51,190,892	21,920,496	$ 21,263,959	$ 72,454,851

In addition to the shares issued:

a) A further 125,000 Class A shares and 500,000 Class B shares may be issued as disclosed in note 5.

b) The directors and certain other employees have been granted options to purchase shares of the company as follows:

Expiry date	Price per share	Outstanding January 31, 1997	Issued	Exercised	Outstanding January 31, 1998
Class A shares:					
July 2, 1997	$ 5.80	19,550	—	19,550	—
March 10, 1998	$ 15.80	60,000	—	43,000	17,000
July 12, 1998	$ 15.80	26,000	—	26,000	—
September 23, 2004	$ 13.37	625,000	—	—	625,000
September 23, 2004	$ 9.25	1,000	—	1,000	—
February 21, 2005	$ 9.25	575,500	—	115,500	460,000
July 19, 2005	$ 12.00	47,500	—	41,500	6,000
January 4, 2006	$ 12.50	50,000	—	10,000	40,000
February 5, 2006	$ 11.25	200,000	—	32,500	167,500
April 9, 2006	$ 16.75	65,000	—	15,000	50,000
June 14, 2006	$ 19.20	37,500	—	10,500	27,000
November 15, 2006	$ 19.50	456,000	—	7,700	448,300
February 17, 2007	$ 20.75	—	100,000	—	100,000
April 28, 2007	$ 20.70	—	100,000	—	100,000
November 27, 2007	$ 22.00	—	32,000	—	32,000
January 28, 2008	$ 24.00	—	25,000	—	25,000
		2,163,050	257,000	322,250	2,097,800
Class B shares:					
July 2, 1997	$ 5.80	78,200	—	78,200	—
March 10, 1998	$ 15.80	246,000	—	193,000	53,000
July 12, 1998	$ 15.80	104,000	—	104,000	—
		428,200	—	375,200	53,000

The expiry date of the above options may be earlier in certain circumstances.

9. Agreements, commitments and contingencies:

a) Northern Gold and Bandit interest:

The Company has a carried 1% net smelter royalty interest and other interests in 600 units of mineral claims. Royalties will be paid after first deducting $228,573 from any such royalties.

b) Nevada Gold program:

In an agreement with a third party, the Company agreed to conduct an exploration program to certain limits within an area of interest using the services of the third party. The third party has the right to receive a 2% net smelter return royalty on any production from property acquired under this agreement. The Company has the right, at any time within 20 years of the date of the agreement, to purchase 50% of the royalty interest for $1,500,000, such price being subject to adjustments in the Consumer Price Index. The agreement terminates on August 31, 1998 unless extended by mutual consent.

9. Agreements, commitments and contingencies (continued) :

c) Nevada Gold joint venture:

The Company has a 51% participating interest in certain claims and areas of interest which are held in a joint venture with another party and covered under the Nevada Gold program referred to above. The other party paid a total of $4,000,000 to acquire their 49% participating interest and all such funds are to be used for exploration expenditures on programs conducted under the joint venture agreement. The agreement provides formulas for dilution and the calculation of net profit interests in various circumstances. The unexpended balance of funds received, amounting to $488,414 at January 31, 1998, is included in cash restricted for exploration and deferred option payments in the accompanying balance sheets. Joint venture exploration expenditures in excess of $4,000,000 will be funded by each party in proportion to each party's participating interest in the joint venture.

d) Finland program:

The Company has an agreement with a third party pursuant to which the Company has guaranteed a minimum annual payment to the third party of $60,000 US for geological consulting services to be rendered in connection with the Finland program. In addition, the Company must pay the third party a 1% net smelter return royalty in respect of all properties acquired in Finland by the Company as a result of exploration done under this agreement. The Company will have the right to buy out two thirds of this royalty for $2,000,000 US at any time within the first five years after commencement of commercial production of the first mine, and the remaining one third of the royalty for $1,000,000 US within the second five years.

e) Eastern Europe program:

On August 7, 1995, the Company was granted an exploration license by a foreign government. The license is for five years and allows the Company to investigate and explore within an area of interest. Under the terms of the license, the Company must pay to the foreign government an annual payment equal to 2% of the cost of the field exploration expenditures incurred in the area of interest. Other terms of the license relate to the possible reimbursement by third parties of the investigation and exploration costs incurred by the Company plus interest at 20% per annum, should the Company not proceed to mining in the area of interest and should mining proceed by another party.

f) Magnesite Belt program:

In an agreement with a third party, the Company agreed to conduct an exploration program within an area of interest using the services of the third party. The third party has the right to receive a 2% net smelter return royalty on any production from property acquired under this agreement. The Company has the right, at any time within 20 years of the date of the agreement, to purchase 50% of the royalty interest for $1,500,000, such price being subject to adjustments in the Consumer Price Index. The agreement terminates on August 31, 1998 unless extended by mutual consent.

g) Paul Mike program:

The Company granted options to two parties to acquire 24.5% interests, respectively, in the Paul Mike claims held by the Company. Under the terms of the option agreement, each party paid $150,000 and is required to pay $250,000 by June 1, 1998 and $600,000 by June 1, 1999 to exercise their options. All funds received have and will be used to fund exploration expenditures related to the property. The unexpended balance of funds received, amounting to $74,303 at January 31, 1998, is included in cash restricted for exploration and deferred options payments in the accompanying balance sheets.

On completion of the option conditions the Company will enter into a joint venture with the other parties.

h) West Greenland program:

The Company and another party have an option to acquire 31% and 20% interests, respectively, in certain exploration licenses located in West Greenland. At the option of the Company and the other party, $1,900,000 of exploration or other defined expenditures must be incurred by December 31, 1998. There are provisions in the agreement to provide for exploration or other expenditures made or incurred after December 31, 1998 or for excess expenditures made in the previous year to be included in the expenditure commitment to December 31, 1998.

The Company and the other party are required to fund 60.78% and 39.22%, respectively, of all expenditures referred to above. If either the Company or the other party elect not to contribute their prorata share of the December 31, 1998 expenditure commitment, the other party may do so, and their interest will be increased accordingly. The non-paying party's interest will revert to zero.

On exercise of the option, the Company will enter into a joint venture agreement with the other parties.

i) West Greenland joint venture:

The Company acquired a 49% interest in a joint venture from a third party. Under the terms of the purchase agreement, the Company has an obligation to the third party for a cash flow interest equal to 40.816% of the Company's share of all net proceeds received by the Company from the sale of diamonds or other minerals from the joint venture property. The third party is obligated to fund 40.816% of any amount required to be funded by the Company under the joint venture agreement. If this obligation is not met, the third party's cash flow interest will be decreased from 40.816% to 1%.

If the Company's 49% interest in the joint venture converts to a royalty interest, then the third party will be entitled to receive 40.816% of any such royalty.

10. Related party transactions:

The Company entered into transactions with related parties as summarized below:

	1998	1997	1996
Exploration and development expenditures charged by companies over which a director of the Company has significant influence	$ 2,604,999	$ 2,605,061	$ 2,181,060
Professional fees paid to a director and an officer of the Company	$ 218,750	$ 204,607	$ 167,629

Included in accounts payable and accrued liabilities at January 31, 1998 is $109,875 (January 31, 1997 - $422,233) payable to companies over which a director of the Company has significant influence.

11. Subsequent events:

Subsequent to January 31, 1998, the following occurred:

a) A 100% owned subsidiary of the Company entered into an option agreement to acquire a 60% interest in certain claims in Finland owned by a third party. In order to exercise the option, the subsidiary must incur exploration or other defined expenditures or payments on the property of $1,000,000 by December 31, 1998, a further $1,000,000 by December 31, 1999 and, at its option, a further $2,000,000 by December 31, 2000.
On exercise of the option, the subsidiary will enter into a joint venture agreement with the third party.

b) The Company granted options to a director to purchase 50,000 Class A shares at a price of $23.20 per share, exercisable by March 24, 2008.

c) A total of 115,800 Class A shares and 53,000 Class B shares were issued for cash of $1,550,400 and $837,400, respectively, on exercise of employee and director share options.

12. Income taxes:

As at January 31, 1998, the Company had renounced in favor of investors, a total of $2,856,405 in income tax deductions related to the expenditure of funds on the Company's mineral claims and other interests.

As at January 31, 1998, the Company has the following amounts available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts:

Non capital losses carried forward available until the year	- 2003	$ 4,484,491
	- 2004	1,172,150
	- 2005	986,842
Amounts deducted for accounting purposes in excess of those deducted for tax purposes		4,386,633
		$ 11,030,116

Income taxes reported on the Consolidated Statements of Operations and Deficit represent large corporations tax which is independent of amounts available to reduce income for tax purposes.

The Company also has available capital losses of $161,657 which may be carried forward indefinitely to reduce future years' taxable capital gains.

13. Differences between Canadian and United States generally accepted accounting principles (GAAP):

a) Deferred income taxes:

In accordance with Statement of Financial Accounting Standards No. 109, income taxes are accounted for under the asset and liability method. The Company has determined that the application of Statement 109 for United States reporting purposes has no effect on its financial statements. Any deferred income taxes initially recognized for non-capital losses carried forward would be fully offset by a valuation allowance as at each year end.

b) Litigation settlement:

As reported in the Company's 1996 financial statements, on February 29, 1996 the Company settled litigation by the issuance of 350,000 Class A shares valued at $4,067,000 at the date of the settlement. As the litigation was commenced in the Company's 1994 fiscal year, under Canadian GAAP the amount of the settlement was recorded as a prior period adjustment. Under United States GAAP, the settlement costs of the litigation would have been recorded in the statement of operations and deficit for the year ended January 31, 1996.

c) Cash and cash equivalents:

Temporary investments held by the Company include primarily government and corporate bonds, term deposits and other high grade government and corporate paper all having varying maturity dates ranging from March 19, 1998 to March 1, 2006, but all are capable of prompt liquidation. Such temporary investments are considered to be cash or cash equivalents under Canadian GAAP. Under United States GAAP, cash equivalents exclude any items whose maturities extend beyond 90 days at the time of acquisition. The effect of applying the United States GAAP definition of cash and cash equivalents on the consolidated statements of changes in financial position for the years presented is as follows:

	Year ended January 31, 1998	1997	1996
Cash and cash equivalents under Canadian GAAP	**$ 42,575,828**	$ 2,821,984	$ 6,888,748
Loan payable	**—**	77,199	907,850
Items with original maturities greater than 90 days	**(34,790,843)**	(2,629,915)	(7,692,493)
Cash and cash equivalents under United States GAAP	**$ 7,784,985**	$ 269,268	$ 104,105

In addition, the following disclosure would be made under United States GAAP in the consolidated statements of changes in financial position for changes in loan payable and changes in temporary investments:

	Year ended January 31, 1998	1997	1996
Cash provided by financing under Canadian GAAP	**$ 226,012,963**	$ 9,456,625	$ 1,627,177
Increase (decrease) in loan payable	**(77,199)**	(830,651)	907,850
Cash provided by financing under United States GAAP	**$ 225,935,764**	$ 8,625,974	$ 2,535,027

	Year ended January 31, 1998	1997	1996
Cash used in investing under Canadian GAAP	**$ (184,295,807)**	$ (8,804,535)	$ (5,129,594)
Purchases of temporary investments	**(57,184,956)**	—	(658,604)
Principal payments and proceeds on redemption of temporary investments	**29,492**	39,097	3,959,647
Proceeds on sale of temporary investments	**24,994,536**	5,023,481	—
Cash used in investing under United States GAAP	**$ (216,456,735)**	$ (3,741,957)	$ (1,828,551)

d) Change in non-cash operating working capital:

Under United States GAAP, the following detail would be disclosed in the consolidated statements of changes in financial position with respect to changes in non-cash operating working capital:

	Year ended January 31, 1998	1997	1996
Decrease (increase) in accounts receivable	$ (683,081)	$ 599,162	$ (444,515)
Increase in inventory	(11,812)	(23,770)	(50,443)
Increase in prepaid expenses	(51,525)	(144,890)	(11,276)
Increase (decrease) in accounts payable and accrued liabilities	(21,923)	267,770	(89,418)
Increase in income taxes payable	489,675	—	—
	$ (278,666)	$ 698,272	$ (595,652)

e) Temporary investments:

In accordance with Statement of Financial Accounting Standards No. 115, the Company's temporary investments would be classified as available for sale. Under Statement No. 115, unrealized holding gains of $1,767,849 and $191,406 would be recognized as an increase in temporary investments and shown as a separate component of shareholders' equity as at January 31, 1998 and 1997, respectively.

f) Loss:

The following table provides a reconciliation of the loss determined under Canadian GAAP with the loss determined under United States GAAP:

	Year ended January 31, 1998	1997	1996
Loss determined under Canadian GAAP	$ (2,806,927)	$ (1,760,193)	$ (2,061,109)
Prior period adjustment	—	—	(4,067,000)
Discount amortization of previous write down of temporary investments to market	(15,154)	(146,735)	(146,736)
Loss determined under United States GAAP	$ (2,822,081)	$ (1,906,928)	$ (6,274,845)

g) Loss per share:

Loss per share would be as follows under United States GAAP:

	Year ended January 31, 1998	1997	1996
Loss per share	$ (.10)	$ (.07)	$ (.23)

For United States GAAP purposes, the Company has adopted Statement of Financial Accounting Standards No. 128. The adoption of Statement No. 128 had no effect on the loss per share reported for United States GAAP purposes for 1997 or 1996.

14. Comparative figures:

Certain of the prior years' figures have been reclassified to conform with the current year's financial statement presentation.

Statement of Corporate Governance Practices

The Board of Directors of the Company believes that sound corporate governance practices are essential to the well being of the Company and its shareholders, and that these practices should be reviewed regularly to ensure that they are appropriate. A description of the Company's corporate governance practices follows. This Statement of Corporate Governance Practices has been prepared by the Corporate Governance Committee of the Board of Directors and has been approved by the Board of Directors.

The By-Laws of the Toronto Stock Exchange require that this Statement of Corporate Governance Practices relate the corporate governance practices of the Board of Directors to the "Guidelines for Improved Corporate Governance" contained in the December, 1994, Report of The Toronto Stock Exchange Committee on Corporate Governance in Canada (the "TSE Report"). The principal corporate governance topics covered in the TSE Report are addressed below.

In this Statement, the term "unrelated director" has the meaning given to it in the TSE Report — a director who is independent of management and free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Company, other than interests arising from shareholding.

MANDATE OF THE BOARD

The mandate of the Board of Directors is to supervise the management of the business and affairs of the Company and to act with a view to the best interests of the Company. The frequency of meetings as well as the nature of agenda items changes depending upon the state of the Company's affairs, on-going developments with respect to the NWT project, active and proposed exploration projects, and in light of opportunities or risks which the Company faces. The Board met five times in 1997 and also held a number of informal communications and meetings during the year.

BOARD COMPOSITION

The Board of Directors is composed of seven members. Five directors are "unrelated directors" and two are "related directors", within the meaning of the TSE Report. Accordingly, the Board of Directors is constituted with a majority of individuals who qualify as "unrelated directors" within the meaning of the TSE Report.

Mr. Charles E. Fipke is Chair of the Board of Directors.

Mr. James E. Eccott is President and Chief Executive Officer of the Company and serves as a director.

BOARD COMMITTEES

The Board of Directors has four committees: the Audit Committee, the Compensation Committee, the Corporate Governance Committee and the Environmental and Safety Committee. The mandates of each committee are set by the Board of Directors and are reviewed periodically. Set out below is a description of their mandates and activities.

Audit Committee

The Audit Committee is responsible for reviewing the Company's financial reporting procedures, internal controls and the performance of the Company's external auditors. The Committee is also responsible for reviewing quarterly financial statements and the annual financial statements prior to their approval by the full Board of

Directors. In April, 1996 the Audit Committee was reconstituted and is now composed entirely of unrelated directors. The Audit Committee met four times in 1997. The Members are Messrs. Atkinson, Christofferson and Poling.

Compensation Committee

The Compensation Committee makes recommendations to the board on, among other things, the compensation of senior executives and the option plan for directors and officers. The Committee also reviews training programs and succession plans. It met once in 1997. The Committee is composed entirely of unrelated directors. Its members are Messrs. Atkinson, Christofferson and Poling.

Corporate Governance Committee

The Corporate Governance Committee of the Board is responsible for making recommendations to the full Board with respect to developments in the area of corporate governance and the practices of the Board. The Committee is also responsible for reporting to the Board with respect to appropriate candidates for nomination to the Board, and for evaluating the performance of the Board. The Committee was appointed in April 1996. In 1997, the committee met once formally, and communicated and met several times informally. It is composed of two unrelated directors and one related director. Its members are Messrs. Atkinson, Eccott and Mackenzie.

Environmental and Safety Committee

The Environmental and Safety Committee of the Board is responsible for reviewing environmental and safety issues related to any ongoing exploration and development work in which the Company is involved. It was appointed in April, 1996. No formal meetings were held in 1997. It is composed of two unrelated directors and one related director. Its members are Messrs. Fipke, Mackenzie and Poling.

DECISIONS REQUIRING BOARD APPROVAL

In addition to those matters which must by law be approved by the Board, management is also required to seek Board approval for any disposition or expenditure in excess of $100,000.00. Management is also required to consult with the Board before entering into any venture which is outside of the Company's existing businesses.

BOARD PERFORMANCE

The Corporate Governance Committee will monitor and report to the Board concerning the effectiveness of the Board's operations.

SHAREHOLDER FEEDBACK

The Company encourages investor inquiries and responds promptly to all information requests. The Company has hired an employee with investor relations expertise to assist in the on-going development of this function. The Corporate Governance Committee of the Board monitors the nature of the information requested by and provided to the board so that it is able to determine if the Board can be more effective in identifying problems and opportunities for the Company.

EXPECTATIONS OF MANAGEMENT

The Board reviews, from time to time, the corporate objectives of the CEO and the projects and priorities of the Company. The Board expects management to have in place an effective system of internal financial controls and other systems to permit compliance with the Company's financial reporting and environmental stewardship responsibilities.

Shareholder Information

Dia Met's principal goal is to be among the top performers in total shareholder return in the world diamond exploration and mining industry.

Shares traded on two international stock exchanges

Toronto Stock Exchange
American Stock Exchange

Ticker Symbols

DMM.A
DMM.B

Index Listings

TSE 300 Index
TSE Gold & Precious Minerals Index

Common Shares

Outstanding at January 31, 1998	Class A - 8,142,074	Class B - 21,920,496
Fully diluted	Class A - 10,364,874	Class B - 22,473,496

Volume of Shares Traded

1997	Class A	Class B
TSE	2,307,209	6,105,778
AMEX	41,000	87,800
1996	**Class A**	**Class B**
TSE	1,888,006	4,637,325
AMEX	144,000	289,800

Closing Price of Shares

(January 30, 1998)	Class A	Class B
TSE	$25.25 Cdn	$28.20 Cdn
AMEX	$16 5/8 US	$19 3/8 US

Share Trading Information
Toronto Stock Exchange ($ Cdn)

Quarter	Share Volume	High	Low	Share Volume	High	Low
1997	Class A			Class B		
First	370,235	$ 23.00	$ 17.00	2,294,626	$ 25.40	$ 18.50
Second	850,753	25.00	20.00	1,557,886	26.25	20.00
Third	740,606	28.40	22.45	1,193,191	31.85	24.00
Fourth	345,615	29.25	20.50	1,060,075	32.15	23.90
1996	Class A			Class B		
First	368,053	$ 17.10	$ 11.00	967,530	$ 19.40	$ 11.60
Second	625,606	23.95	15.75	1,391,647	25.75	19.00
Third	470,190	21.50	17.50	816,599	24.50	19.60
Fourth	424,157	20.50	18.00	1,461,549	23.00	19.95

American Stock Exchange ($ US)

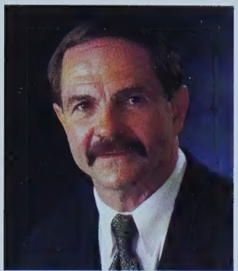
Quarter	Share Volume	High	Low	Share Volume	High	Low
1997	Class A			Class B		
First	15,500	$ 16 3/4	$ 13	25,600	$ 18 1/8	$ 14 1/8
Second	6,300	17 1/8	14 1/4	20,000	19	14 1/2
Third	9,300	19 1/4	16 13/16	27,800	22 7/8	18 3/8
Fourth	9,900	20	15 1/2	14,400	23 3/8	16 7/8
1996	Class A			Class B		
First	29,800	$ 12 1/2	$ 8 1/8	66,400	$ 14 1/4	$ 8 3/4
Second	46,600	17	11 7/8	81,400	18 5/8	13 7/8
Third	39,600	15 3/4	13 1/4	28,200	17 5/8	14 1/2
Fourth	28,000	15 1/4	13 3/8	113,800	16 3/4	14 3/4

On February 22, 1994 the common shares of the Company were split on a 2 for 1 basis. On July 14, 1994 the capital of the Company was reorganized and each common share outstanding was exchanged for 1 Class B share and 0.25 Class A shares.

Recent Research Reports

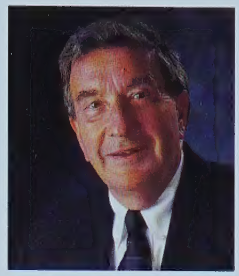
Firm	Analyst	Phone	Date of Report
Yorkton Securities Inc.	John Hainey	(416) 864-3558	December 16, 1997
Nesbitt Burns Inc.	Don MacLean	(416) 359-6667	January, 1998
Canaccord Capital	David James	(204) 988-9602	January, 1998
Goepel Shields & Partners Inc.	Rob Klassen	(604) 661-1785	January 18, 1998
TD Securities Inc.	Terry Bell	(416) 307-9396	January 28, 1998
Midland Walwyn Capital Inc.	Michael Curran	(416) 369-2225	February, 1998
Deutsche Morgan Grenfell	Raymond Goldie	(416) 682-8112	February 9, 1998
Loewen, Ondaatje, McCutcheon Limited	Judy Baker	(416) 964-4460	February 16, 1998
HSBC James Capel Canada Inc.	Brian Christie	(416) 947-2701	February 23, 1998
SMK Securities	Hilton Ashton	(011) (27) (11) 833-8110	February 23, 1998
First Marathon Securities Limited	John Lydall	(416) 869-6663	March 3, 1998

Board of Directors



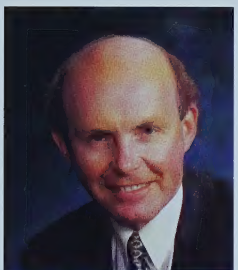
Charles E. Fipke
Chairman

Charles Fipke is a Bachelor of Science (Honours Geology) graduate of the University of British Columbia. Between 1970 and 1977, Mr. Fipke worked as a geologist involved to a large extent in heavy mineral exploration and research for Kennecott Copper in New Guinea, Samedan Oil in Australia, Johannesburg Consolidated Investments in southern Africa and Cominco Ltd. in Brazil and British Columbia. Mr. Fipke was a key player in the discovery of favourable kimberlite indicator minerals north of Lac de Gras, now the site of the Ekati Diamond Mine. He founded C.F. Mineral Research Limited, a private company, in 1977. Currently, the C.F. Mineral Research heavy mineral laboratory, located in Kelowna, B.C., is involved in heavy mineral exploration and processing on behalf of many international companies. Mr. Fipke founded Dia Met Minerals Ltd. in 1983 to fund exploration for diamonds in Canada.



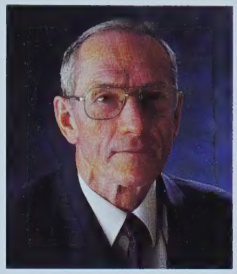
James E. Eccott
President and Chief Executive Officer

Born in Montreal, Quebec, James Eccott obtained his Bachelor of Commerce degree from the University of British Columbia in 1955. Mr. Eccott began his career as a sales representative and area manager for Crown Zellerbach Canada Ltd., in Vancouver, B.C. In 1971, he established Eccott Building Supplies Ltd., operating three building supply yards in the Okanagan Valley, and served as President and General Manager of the company until its sale in 1977. Between 1977 and 1991, Mr. Eccott ran an independent lumber brokerage in Kelowna, B.C. He joined the Board of Directors of Dia Met Minerals Ltd. in 1986. In 1992, he accepted the position of President and Chief Executive Officer of Dia Met. Mr. Eccott is also on the Board of Directors of Canadian Airlines Corporation, Prism Resources Limited and Tekerra Gas Inc.



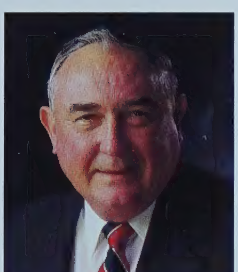
Peter Y. Atkinson
Director

Peter Atkinson is Vice-President and General Counsel and a Director of Hollinger Inc. He is Vice-President of Hollinger International Inc. and a Director of Southam Inc., Argus Corporation Ltd. and Dia Met Minerals Ltd. Prior to joining Hollinger in February, 1996, Mr. Atkinson was a partner and Chairman of the Management Committee of Aird & Berlis, a Toronto law firm. He is a past Director of the Advocates' Society, a Fellow of the American College of Trial Lawyers and a member of the Canadian Bar Association. Mr. Atkinson holds a Bachelor of Law degree from the University of Western Ontario and a Masters of Law degree from the London School of Economics and Political Science.



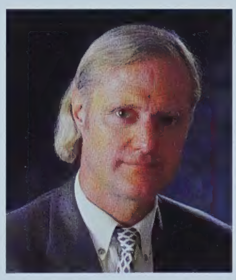
Keith A. Christofferson
Director

Keith Christofferson obtained a Masters of Science (Geology) from Michigan State University in 1959 and a Bachelor of Law degree from the University of British Columbia in 1967. Mr. Christofferson was employed in the petroleum industry from 1959 to 1964. He practised law in British Columbia from 1968 to December 31, 1997, specializing in mining and securities law. He acted as corporate counsel for Dia Met Minerals Ltd. from its inception in 1983 until he retired from his law practice in 1997.



Robert N. Hickman
Director

Robert Hickman is former Executive Vice-President and Group General Manager of BHP Minerals. In that role he had worldwide responsibility for new business development, exploration and strategic planning for the BHP Minerals' divisions. His duties also included responsibility for all diamond activities in the Northwest Territories, South Africa and Namibia. Mr. Hickman was also the first President of BHP Diamonds Inc. He was involved in the critical phases of BHP's joint venture activities in the NWT with Dia Met Minerals Ltd., Charles E. Fipke and Stewart Blusson, resulting in the development of the Ekati Diamond Mine. In 1996, Mr. Hickman retired from BHP following 37 years of service to that organization. He qualified with a B.Sc. Geological Engineering at Montana Tech in 1957. His career as a mining engineer began in the start-up operation of the Berkley Pit in Butte, Montana. He was involved in the bulk sampling, development drilling, feasibility study, construction and start-up of the Island Copper Mine in B.C. Mr. Hickman was also responsible for exploration, bulk sampling and development of the Escondida copper deposit in Chile and was appointed President of Minera Escondida in 1988.



David W. G. Mackenzie
Director

David Mackenzie obtained a Bachelor of Fine Arts degree from the University of British Columbia. He has had an extensive bush aviation career as a fixed and rotary wing commercial pilot and has won awards in the television and film business. Mr. Mackenzie was President of Dia Met Minerals Ltd. from 1985 to 1988 and was involved with the early exploration and initial staking of the Ekati Diamond Mine.

Dr. George W. Poling
Director

Dr. George Poling is Professor emeritus and former Head of the Department of Mining and Mineral Process Engineering at the University of British Columbia, where he taught from 1968 until he retired in 1997. He was also Research Coordinator for the B.C. Mining Association. Dr. Poling holds a Bachelor of Science in Mining and Metallurgical Engineering and a Ph.D. in Mineral Process Engineering, both from the University of Alberta. He is one of Canada's leading experts in the mineral processing and environmental management of mining operations. Dr. Poling is a Senior Vice-President of Rescan Environmental Services Ltd., and is a member of the environmental panel which oversees the monitoring program for BHP-Utah's Island Copper Mine on Vancouver Island. He has also been involved in research programs addressing acid drainage concerns at several mines in British Columbia and has published numerous papers on the topic.

Corporate Directory

OFFICERS

James E. Eccott (3)
President, Chief Executive Officer and Director

Grant L. Miller
Chief Financial Officer and Secretary

BOARD OF DIRECTORS

Charles E. Fipke (4)
Chairman of the Board and Director

Peter Y. Atkinson (1) (2) (3)
Director

Keith A. Christofferson (1) (2)
Director

James E. Eccott (3)
President, Chief Executive Officer and Director

Robert N. Hickman
Director

David W. G. Mackenzie (3) (4)
Director

Dr. George W. Poling (1) (2) (4)
Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee
(4) Member of the Environmental and Safety Committee

CORPORATE OFFICE

Dia Met Minerals Ltd.
1695 Powick Road
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Telephone (250) 861-8660
Facsimile (250) 861-3649

INVESTOR RELATIONS & CORPORATE COMMUNICATIONS

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1-888-877-8660
Email: corporat@diamet.com
Website: www.diamet.com

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Edwards, Kenny & Bray
Barristers and Solicitors
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Vancouver, B.C., Canada
V6E 4H3

AUDITORS

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Kelowna, B.C., Canada
V1Y 9G4

BANKERS

Royal Bank of Canada
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Kelowna, B.C., Canada
V1Y 7N9

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company
510 Burrard Street
Vancouver, B.C., Canada
V6C 3B9

8th Floor - 151 Front Street
Toronto, ON, Canada
M5J 2N1

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange
Symbol DMM.A and DMM.B

American Stock Exchange
Symbol DMM.A and DMM.B

Cautionary Note

Some of the statements contained in this annual report are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements by reason of factors such as the time when commercial production begins at the Ekati Diamond Mine, the overall productivity of the Ekati mine and the marketability of diamonds produced by the mine. Changes in general economic conditions and conditions in the financial markets, changes in demand and prices for diamonds and competition from other diamond producers could also have an impact on actual results. Results could also be affected by legislative, regulatory and political developments relating to environmental, aboriginal, tax, competition and other matters both in Canada and other areas in which the Company operates, and by litigation and labour relations issues affecting the Company.

DIA MET

MINERALS LTD.

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